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INCOMING
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Reviewed by Ellyn Kelly Jr.

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PARAGRAPH 1 0500 24202 010547 934817 new 1089
ACTION NOOKS

INFO ACT-PI 405-88 1201 K 214672 9348447 1089

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FM AMEMBASSY BEIJING
TO SECRETARY VAUGHN IMMEDIATE 3177

CONFIDENTIAL REPTON 1 OF 7 BEIJING 6292

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STATUS

F.O. 1981 009-3 - 6/10/81 (SOV, J. STAPLETON DRH
TAGS) DCR
SUBJ: WATG-ZMAN CHENCOM

DEPT STATE 104748

HEREWITH REPEATED FOR YOUR ACTION BEIJING 6292, GENT ACTION
MANILA JUNE 19.

QUOTE

CONFIDENTIAL REPTON 1 OF 7 BEIJING 6292

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FUD ASSISTANT SECRETARY HOLDING

F.O. 1981 009-3, 6/10/81 (SOV, J. STAPLETON DRH
TAGS) DCR, SHAIK, ALEXANDER H., JO, 1 PM
SUBJ: SECRETARY HAGLER JUNE 19, 1981 MEETING WITH POC
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PAGE #1 081314 08292 01 OF 07 2374317

2. THE FOLLOWING MEMOIR OF THE SECRETARY'S MEETING
WITH POL PREMIER ZHAN ZIYANG AT 3:30 P.M. ON THURSDAY,
JUNE 18, 1981, BEAURES CLEARANCE BY THE SECRETARY.
FOLLOWING WHICH IT SHOULD BE TRANSMITTED TO WASHINGTON
WITH APPROPRIATE DISTRIBUTION CONTROLS.

3. PARTICIPANTS IN THE MEETING FOR THE U.S. WERE
THE SECRETARY, ASSISTANT SECRETARY MOLDAUER, CHARGE
OF AFFAIRS, GENERAL WALTERS, MSSRS. LILLEY,
SHACOST AND GOLDBERG, AND MR. CHANG, (INTERPRETER).
FOR THE CHINESE SIDE PRETER ZHAO ZIYANG, VICE
FOREIGN MINISTER ZHANG WEIJUN, DIRECTOR HAN XU,
DEPUTY DIRECTOR ZHOU ZIYUN, DEPUTY DIRECTOR LI
CHAOSHUI, DEPUTY DIRECTOR TANG LONGRUI, INTERPRETER
YANG JIUCHI, AND THREE NOTETAKERS.

4. BEGIN TEXT

HATG PRETER ZHAN, IT IS A PRIVILEGE TO MEET
YOU IN THIS LOVELY PLACE.

ZHEUZ IT IS CALLED THE PURPLE VELVET PALACE.
WHEN PRETER ZHAN ENLAI WAS WITH US, HE
OFTEN MET FOREIGN FRIENDS HERE. IN THE OTHER
DYNASTY THIS WAS THE PLACE WHERE THE
EMPEROR GAVE EXAMINATIONS TO SCHOLARS.

ZHENGUENJIA TO MILITARY OFFICERS.

HATG I HOPE I DON'T HAVE THAT EXPERIENCE TODAY.
I MIGHT GET A LOW GRADE.

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THA01 YOU HAVE BEEN HERE SEVERAL DAYS, AND THE WEATHER HAS BEEN VERY HOT.

HATG1 IT IS FORTUNATE THAT WHILE THE WEATHER IS HOT, IT IS DRY, NOT DAMP.

THA01 IT IS WARMER THAN WASHINGTON?

HATG1 SLIGHTLY, BUT NOT AS MUCH. IF WE'RE IN HONG KONG TWO DAYS AGO, THAT WAS VERY HUMID.

THA01 ONE GOOD THING ABOUT HONG KONG IS THE FACT THAT THEY HAVE NO MOSQUITOES. WE HAVE THEM HERE IN GREAT NUMBERS.

HATG1 I DIDN'T ACTUALLY NOTICE THEM.

THA01 IT IS NOT LIKE PANTH HERE; THERE, MOSQUITOES ARE WEEEDED.

THA01 DURING THIS MORNING, YOU MET WITH VICE CHANCELLOR NGNG. THAT WAS A VERY IMPORTANT PERSON WHICH HAS THE CHINAY OF YOUR VISIT. YOU ALSO MET YESTERDAY AND THE DAY BEFORE WITH FOREIGN MINISTER HSUNG HSIAO, VICE PREMIER RO YIEN, AND VICE PREMIER CHENG QIAO. I HEAR THAT THESE MEETINGS WENT VERY WELL.

HATG1 OF YOUR EXTENSIVE DISCUSSIONS ON INTERNATIONAL, REGIONAL, AND BILATERAL ISSUES, OUR TALKS WERE HIGHLY SATISFACTORY, AND VERY CONSTRUCTIVE.

THA01 PERHAPS TODAY I MIGHT USE THE OPPORTUNITY TO OFFER YOUR EXCELLENCE ON DOMESTIC CONDITIONS HERE IN CHINA. HOWEVER, SINCE I RECENTLY WENT TO SOUTH ASIA, I WOULD LIKE TO COVER SEVERAL

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PICTURE RELATED TO THOSE COUNTERIFS.

HATGI THAT WOULD BE VERY INTERESTING.

THAOI

RECHAPR
YOU ALREADY KNOW THAT WE WILL SHOW HAVE THE
8TH PLENUM OF THE 11TH PARTY CENTRAL
COMMITTEE. THIS WILL BE A VERY IMPORTANT
SEASON. IN THAT OCCASION, AN IMPORTANT

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DOCUMENT ON CERTAIN HISTORICAL QUESTIONS
WILL BE ADOTTED, AND THERE WILL BE SOME
DEGRADUAL CHANGE IN THE CENTRAL LEADERSHIP.
MAYBE.

REMARKS

YOU ALSO KNOW THAT IN 1949 THE PARTY CENTRAL
COMMITTEE ADOTTED A RESOLUTION ON SOME
THREE HISTORICAL QUESTIONS SINCE THE
ESTABLISHMENT OF THE PARTY. AT THAT TIME
OUR PARTY HAD A HISTORY OF 24 YEARS. THIS
DOCUMENT ENCOURAGED THE UNITY OF PARTY
MEMBERS, AND CONTRIBUTED TO THE STRENGTH
OF THE PARTY, WHICH ULTIMATELY ACHIEVED
THE GREAT NATIONAL VICTORY. THE RESOLUTION
TO BE ADOTTED AT THE SIXTH PLENUM WILL BE
A CONTINUATION COVERING THE PERIOD FROM THE
FOUNDING OF OUR REPUBLIC TO THE PRESENT --
THAT IS, 39 YEARS. THIS DOCUMENT WILL
CERTAINLY EXPEDITE THE PROGRESS OF THE FIVE
YEAR PLANNING EFFORT. PERHAPS YOU CAN

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THAT SINCE 1978, AND EXPECTALLY SINCE 1979, WE HAVE DONE A LOT TO REVIEW THE PATH WE HAVE TRAVESED AND TO SUMMARIZE OUR EXPERIENCE AND THE LESSONS WE HAVE LEARNED. THE MAIN PURPOSE IS TO MAKE CLEAR THE DISTINCTION BETWEEN RIGHT AND WRONG, TO STICK TO THE RIGHT, AND TO CORRECT MISTAKES. THIS HAS BEEN A TERRIFIC JOB, BUT IT IS NOW ALREADY FINISHED. AGAINST THIS BACKGROUND THE SIXTH PLANE WILL BE HELD.

TALKING ABOUT TAKING RACK ON MILITARY AND QUANTITATIVE ORGANIZATIONAL EXPERIENCE, THE QUESTION IS ONE OF HOW ONE LOOKS AT OUR JOB OVER THE PAST 12 YEARS. DURING THIS PERIOD, WE HAVE MADE SOME MISTAKES, PARTICULARLY DURING THE CULTURAL REVOLUTION, WHICH AFFECTED THE ENTIRE NATION. BUT APART FROM THAT, WE HAVE MADE CONSIDERABLE PROGRESS. WE HAVE ESTABLISHED A SOCIALIST SYSTEM, AND WE HAVE LAUNCHED A MASSIVE ECONOMIC PROGRAM. WE HAVE CAPTURED WATER POWER, SEVEN AND A HALF BILLION CUBIC METERS PER YEAR. ONE MIGHT SAY THAT INDUSTRY HAS ALREADY ATTAINED A STUNNING MAGNITUDE. THERE ARE AS MANY AS 400,000 INDUSTRIAL ENTERPRISES IN CHINA. THE VALUE OF FIXED ASSETS AND CIRCULATING CURRENCY OF THESE ENTERPRISES AMOUNTS TO 800 BILLION CHINESE YUAN. THERE ARE, OF COURSE, SOME SHORTCOMINGS SUCH AS FAULTS IN MANAGEMENT AND EFFICIENCY, WHICH IS NOT TOO HIGH.

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BUT WE HAVE ACHIEVED A STABLE BASIS FOR
DEVELOPMENT.

DURING THE LAST 12 YEARS THE CHINESE PEOPLE-
TIAN HAS HEADLY MOVED. IN 1949 THERE WERE
OVER 500 MILLION CHINESE. NOW WE HAVE
NEARLY ONE BILLION. WE HAVE SUCCEDED IN
HEAVING THE BASIC NEEDS OF OUR PEOPLE.
NOW THEY HAVE ENOUGH TO EAT AND WEAR.
HOWEVER, COMPARED TO THE DEVELOPED
COUNTRIES AND TO THE MEDIAN INCOME AND RAPID
GROWTH RATES, CHINA IS A POOR COUNTRY AND
REINLY BACKWARD. BUT IT IS A VASTLY
DIFFERENT COUNTRY THAN IT WAS 20 YEARS AGO.
ONE OF THE MAJOR INDICATORS OF CHANGE IS THAT
THE AVERAGE LIFE EXPECTANCY IS NOW 64 YEARS
OLD. AS YOU KNOW, LIFE EXPECTANCY
REFLECTS THE LEVEL OF ECONOMIC AND SOCIAL
DEVELOPMENT OF A COUNTRY. PARTICULARLY,
IT WOULD POINT OUT THAT IN THE LAST 30 OR
MORE YEARS WE HAVE ACHIEVED SUCCESS IN A
QUINTILE OF ONE BILLION, OF WHICH 800
MILLION ARE PEASANTS, AND IN A COUNTRY WHERE
ECONOMIC BASE WAS EXCEPTIONALLY WEAK. FOR THE
RECENT PART OF THE LAST THREE DECADES,
CHINA FARMED ON "IRON Handed" DIFFICULT
CONDITIONS. THE BLOCKADE WE FACED REQUIRED
US TO RELY ON OURSELVES IN CAPITAL FORMATION,
TECHNOLOGICAL DEVELOPMENT, AND BRINGING OUT
THE TALENTS OF OUR PEOPLE. OF COURSE, IN
THE 1940'S WHEN STALIN WAS ALIVE THE
SOVIET UNION DID GIVE US SOME ASSISTANCE,
BUT IT WAS NOT FREE; WE HAD TO PAY IT BACK.
WHEN KOROLEV CAME TO POWER WE TOOK UP
THE CONTRACTS, PULLED OUT THE TECHNICIANS,
AND REMAINED REPAYMENT. ALTHOUGH THIS

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RAISED US GREAT TROUBLE, OR EVENTUALLY
BATO EVERYTHING BACK.

I WOULD MENTION IN PARTICULAR THAT ONE-
THIRD OF THE LAST THREE REPARAS -- THAT IS

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TO SECSTATE WASHDC UNEDITATE 3174

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TEN YEARS -- WAR MASTED BECAUSE OF
SP-FAILED CULTURAL REVOLUTION. LOOKING
BACK, HE CAN SEE EVER MORE CLEARLY WHAT A
MISTAKE HE MADE THAT WAR. I HAVE STUDIED
THIS QUESTION AND FOUND THAT IT WAS ESPECIALLY
DURING THAT OFCAUSE THAT SOME OF THE LESS
DEVELOPED COUNTRIES ACHIEVED SUCH REMARK-
ABLE ECONOMIC PROGRESS. I HAVE COME INTR-
UPTAII. CONCERNING HOW TO LOOK AT THE 1,400
30 YEARS. IF THINK THAT DESPITE BLUNDERS,
THE SUCCESSES WERE THE PREDOMINANT FEELING.
THIS MEANS THAT THE SOCIALIST SYSTEM PROCEEDED
IN ACTUAL COMPETITION IN CHINA. HE
HAVE BROUGHT IT INTO PLAY THE SUPERIORITY OF
THE SOCIALIST SYSTEM. EFFORTS MUST CONTINUE
TO BE MADE TO IMPROVE OUR SYSTEM. THERE
ARE SOME MAJOR PLANS. THEY NEED TO BE
REFORMED. THERE ARE SOME POLICY MISTAKES
WHICH NEED TO BE CORRECTED.

THIS IS OUR GENERAL VIECH. ON THE ONE HAND,
WE SHOULD STICK TO THE ORIGINALIST POSITION,
WHILE ON THE OTHER HAND WE ARE OPENING THOUGHT.

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BEIJING 84202 NO 07 230498Z

EVERYONE THE MASTERSHIP OF THE PROLETARIAT,
AND BELIEVE TO THE LEADERSHIP OF THE
COMMUNIST PARTY. BUT ON THE OTHER HAND,
REFORMS WILL HAVE TO BE CARRIED OUT STEP
BY STEP. WHAT HAS BEEN DONE SO FAR IS
FOR A COOPERATION. IN ASSESSING OUR PERFORMANCE
OVER THE PAST 30 YEARS, ONE SHOULD
NEITHER CYNIC NOR NEGATE WHAT HAS BEEN DONE.
I.E., WE SHOULD NOT BECAUSE OF MISTAKES OR
BLUNDERR NEGATE OUR BASIC SOCIALIST SYSTEM
OR OTHAIR RARIP POLIPIS. WE SHOULD ATTCH
TO THE FOUR PRINCIPLES WHILE MAKING EARNEST
EFFORTS TO PERFECT OUR SOCIALIST SYSTEM
AND OVERCOMING SHORTCOMINGS IN OUR POLITICAL
SYSTEM.

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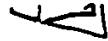
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TO SECRETARY WARHOG IMMEDIATE 3103

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WATSON: WE DO FOLLOW EVENTS HERE CLOSELY, SINCE WE
REGARD CHINA'S ECONOMIC HEALTH,
STABILITY, AND VITALITY AS A MATTER OF
CONCERN TO THE UNITED STATES AS WELL. IN
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MANY EXPECTS, AS MY OBSERVATIONS WITH VICE
PRESIDENT AND YOUR VERTERAN CONFIRMED, HE
ARE PURSUING PARALLEL TRACKS EVEN THOUGH HE
ARE TWO DIFFERENT SYSTEMS. I KNOW HE HAVE
BOTH LEARNED ONE OF THE BASIC LESSONS
OF ECONOMICS, WHETHER ONE SPEAKS OF 18TH
CENTURY ECONOMICS OR MARXIST ECONOMICS.
THAT IS THAT NATIONS MUST NOT SPEND MORE THAN
THEY TAKE IN. THAT IS A FORMULA FOR MORTGAGE
IN THE FUTURE.

THAT I HAVE HEARD THAT ACCORDING TO KEYNESIAN
ECONOMIC THEORY ONE CAN SPEND MORE THAN ONE
FAUNS.

NATION THAT IS NOW A DEFUNCT THEORY IN THE UNITED
STATES' GOVERNMENT BECAUSE NOES NOT FOLLOW
PRESIDENT ETHER, BUT HE RESEMBLES
MARX ECONOMICS FROM 40-50 YEARS AGO.
I THINK AND THE HOUSEHOLDS LIVE BY THE
FUNDAMENTAL ECONOMIC PRECEPTS WHICH NATION
MUST FOLLOW AS WELL. I HAD A LENGTHY DISCUSS-
SION WITH DAVID ROCKEFELLER AFTER HIS
RECENT VISIT TO CHINA WITH THE TRIMESTER IN
COUNCIL. HE EXPRESSED GREAT INTEREST IN
CAPITAL FINANCING AND THOUGHT THAT HE AND
SOME OF HIS FRIENDS COULD OFFER SOME
PUNSHINING SUGGESTIONS. I DID GATHER
VERBALLY THAT PART OF YOUR REFORM
PROGRAM INVOLVES GREATER DECENTRALIZATION.
THAT INTERESTS ME BECAUSE HE WAS ALSO
SEEKING TO ACCOMPLISH THAT IN THE UNITED
STATES'. HE HAVE ONE MAJOR CONTRACTION
IN CHINA OTHERWISE ANOTHER MIGRET.
WHICH HAS BEEN REDUCED BY 94
BILLION DOLLARS THAT IS A DRAMATIC 72

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BILTON DOLLAR INCREASE IN OUR OFFENSE
APPARING. WE HAVE FOUND THAT OVER THE LAST
20 YEARS OUR SOCIAL PROGRAMS GREW FROM 20
BILLION DURING THE ADMINISTRATION OF JOHN KENNEDY
IN 1963 TO NEARLY 300 BILLION LAST YEAR.
MANY OF THE PROGRAMS HAVE OUTLIVED THEIR
ORIGINAL PURPOSE, BUT THEY HAVE RETAINED

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TO SECRETARY WARMONG IMMEDIATE 3101

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MOMENTUM AND CONTINUING THEIR
MOV. HENCE, THEY CONTINUE TO GROW. IF
WE ARE PURSUING A BROAD BASED ECONOMIC REFORM
SOMETHAT DIFFERENT FROM WHAT MRS. THATCHER
TRIED IN THE UNITED KINGDOM THREE YEARS
AGO, SHE MADE THE MISTAKE OF TRYING TO
ISOLATE FUNCTIONAL AREAS OF AUSTERTY,
BUT SHE WAS DEFEATED ON EACH ISSUE BY THE
PARLIAMENT AND THE PEOPLE AND IS IN SOME
TROUBLE TODAY. FOR THAT REASON, IF WE ARE
TRYING TO PROGRESS ON A BROAD FRONT IN AN
INTERESTED HUNCHED TO GET THE BASIC
IMPROVEMENTS IN OUR ECONOMY WHICH WE MUST
HAVE.

MR. REAGAN, I AM ANYTHING TO HEAR ABOUT
YOUR TRAVELS. I BROUGHT YOU A
REVIEW OF A LETTER FROM VICE PRESIDENT BUSH,
AND I HAVE BROUGHT YOU A LETTER FROM
PRESIDENT REAGAN. I HAVE ALSO BEEN ASKED
BY PRESIDENT REAGAN TO EXTEND TO YOU AN
INVITATION TO VISIT THE UNITED STATES AT
A MUTUALLY CONVENIENT DATE AT THE END

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OF THIS VISIT OR THE BEGINNING OF NEXT YEAR.
WE WOULD BE HONORED TO RECEIVE YOU IF YOUR
SCHEDULE PERMITS. WE CAN WORK OUT THE
ARRANGEMENTS THROUGH DIPLOMATIC CHANNELS. I
KNOW THAT THE AMERICAN PEOPLE WOULD BE DELIGHTED
TO WELCOME YOU.

THAT I WOULD LIKE TO EXPRESS THANKS FOR PRESIDENT
REAGAN'S LETTER AND FOR HIS INVITATION AS WELL.
BECAUSE I HAVE A VERY CROWDED SCHEDULE THIS
YEAR, PERHAPS I WILL NOT BE ABLE TO MAKE IT.
BUT I AM LOOKING FORWARD TO VISITING WITH
THE PRESIDENT AT A LATER DATE. SPECIFIC
DATES CAN BE WORKED OUT THROUGH DIPLOMATIC
CHANNELS. I WOULD LIKE TO TAKE THIS
OPPORTUNITY TO RESEND THE INVITATION TO
PRESIDENT REAGAN TO VISIT CHINA. THE
CHINESE GOVERNMENT HAS ALREADY EXTENDED
THE INVITATION. NOW, ON BEHALF OF YE JIANGYING,
THE CHAIRMAN OF THE STANDING COMMITTEE OF
THE NATIONAL PEOPLE'S CONGRESS, AND THE
CHINESE GOVERNMENT, I WOULD LIKE TO REAFFIRM
THAT INVITATION TO PRESIDENT REAGAN TO
VISIT AT A CONVENIENT TIME. PLEASE ALSO
PASSE MY RESPECTS TO THE PRESIDENT.

NATURALLY I SHALL BE HAPPY TO DO SO. I KNOW THE
PRESIDENT WILL WELCOME YOUR INVITATION AND
LOOK FORWARD TO YOUR VISIT. LIKE YOU,
THE PRESIDENT HAS A VERY HEAVY SCHEDULE
AND HE HAS BEEN REMINDING BECAUSE OF THE RECENT
ATTEMPT BY HIS LIFE.

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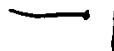
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HATGI, IF ARE PRESENT FOR TIME AND MUST QUIT. LET
ME MAKE ONE COMMENT ON PAKISTAN. YOU WILL
HAVE NOTED IN THE PRESS THE ANNOUNCEMENT
THAT MY UNDERSECRETARY FOR SECURITY ASSISTANCE,
JIM RUCKER, HAS WORKED OUT A FRAMEWORK AND
THE DETAILS OF AN AGREEMENT FOR A MULTIBILLION
DOLLAR ASSISTANCE ARRANGEMENT FOR PAKISTAN. THIS
PUBLICITY ON THE ARRANGEMENT HAS COME UP MORE
LONGLY THAN I WOULD HAVE WISHED THIS EARLY.

THAT IS IT FOR ONLY 3 BILLION?

HATGI, OVER 300,000,000 DOLLARS MILLION OVER FIFTEEN YEARS
IS A HIGH FIGURE, AND IS UNPRECEDENTED. THIS
REPRESENTS REACHING THE SAME LEVEL OF AID AS
WE PROVIDED TO EGYPT. I WANTED TO ALERT YOU
TO TWO ASPECTS OF THIS. FIRST, THERE WILL
BE LOTS OF CONTROVERSY IN THE COUNCILS AS
VARIOUS MEMBERS ARGUE THAT THIS IS TOO
HIGH AND THAT IT HAS NOT BEEN CAREFULLY
COORDINATED. WE WILL WORK ON THIS PROGRAM,
REFOUND; THE DANGER OF THURFIST SOVIET
REFUGEE ON PAKISTAN MAY BE HIGHER THAN
EVER.

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THE MEETING CONCLUDED AT 5THR P.M.
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PAGE 01

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[HEADER INFO]

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FOR ASSISTANT SECRETARY HOLDRIDGE

**SUBJECT: SECRETARY HAIG'S JUNE 16, 1981 MEETING WITH PRC
PREMIER ZHAO ZIYANG**

1. (C - ENTIRE TEXT)

PAGE 02

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2. THE FOLLOWING MEMCON OF THE SECRETARY'S MEETING WITH PRC PREMIER ZHAO ZIYANG AT 3:30 PM ON THUSDAY, JUNE 16, 1981 REQUIRES CLEARANCE BY THE SECRETARY, FOLLOWING WHICH IT SHOULD BE TRANSMITTED TO WASHINGTON WITH APPROPRIATE DISTRIBUTION CONTROLS.

3. PARTICIPANTS IN THE MEETING FOR THE U.S. WERE THE SECRETARY, ASSISTANT SECRETARY HOLDRIDGE, CHARGE D'AFFAIRES ROY, GENERAL WALTERS, MESSRS. LILLEY, ARMACOST AND GOLDBERG, AND MS. CHANGE, (INTERPRETER), FOR THE CHINESE SIDE: PREMIER ZHAO ZIYNG, VICE FOREIGN MINISTER ZHANG WEIJIN, DIRECTOR HAN XU, DEPUTY DIRECTOR ZHU QIZHEN, DEPUTY DIRECTOR LI [ILLEGIBLE], DEPUTY DIRECTOR TANG LONGRIN, INTERPRETER YANG [ILLEGIBLE], AND THREE NOTETAKERS.

4. BEGIN TEXT:

HAIG: PREMIER ZHAO, IT IS A PRIVILEGE TO MEET YOU IN THIS LOVELY PLACE.

ZHAO: IT IS CALLED THE PURPLE VELVET PAVILION. WHEN PREMIER ZHOU ENLAI WAS WITH US, HE OFTEN MET FOREIGN GUESTS HERE. IN THE QYNG DYNASTY THIS WAS THE PLACE WHERE THE EMPEROR GAVE EXAMINATIONS TO SCHOLARS.

ZHANG WENJIN: TO MILITARY OFFICERS

HAIG: I HOPE I WON'T HAV THAT EXPERIENCE TODAY. I MIGHT GET LOW GRADE.

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ZHAO: YOU HAVE BEEN HERE SEVERAL DAYS, AND THE WEATHER HAS BEEN VERY HOT.

HAIG: IT IS FORTUNATE THAT WHILE THE WEATHER IS HOT, IT IS DRY, NOT DAMP.

ZHAO: IT IS WARMER THAN WASHINGTON?

HAIG: SLIGHTLY, BUT NOT AS HUMID. WE WERE IN HONG KONG TWO DAYS AGO. THAT WAS VERY HUMID.

ZHAO: ONE GOOD THING ABOUT HONG KONG IS THE FACT THAT THEY HAVE NO MOSQUITOES. WE HAVE THEM HERE IN GREAT NUMBERS.

HAIG: I DIDN'T ACTUALLY NOTICE THEM.

ZHAO: IT IS NOT LIKE CANTON HERE; THERE, MOSQUITO NETS ARE NEEDED.

ZHAO: DURING THIS MORNING, YOU MET WITH VICE CHAIRMAN DENG. THAT WAS A VERY IMPORTANT SESSION WHICH WAS THE CLIMAX OF YOUR VISIT. YOU ALSO MET YESTERDAY AND THE DAY BEFORE WITH FOEIGN MINISTER HUANG HUA, VICE PREMIER BO YIBO, AND VICE PREMIER GENG BIAO; I HEAR THAT THESE SESSIONS WENT VERY WELL.

HAIG: WE HAD EXTENSIVE DISCUSSIONS ON INTERNATIONAL, REGIONAL, AND BILATERAL ISSUES. OUR TALKS WERE HIGHLY SATISFACTORY, AND VERY CONSTRUCTIVE.

ZHAO: PERHAPS TODAY I MIGHT USE THE OPPORTUNITY TO BRIEF YOUR EXCELLENCY ON DOMESTIC CONDITIONS HERE IN CHINA, MOREOVER, SINCE I RECENTLY WENT TO SOUTH ASIA, I WOULD LIKE TO COVER SEVERAL

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POINTS RELATED TO THOSE COUNTRIES.

HAIG: THAT WOULD BE VERY INTERESTING.

ZHAO: [TWO LINES EXCISED]; PERHAPS
YOU ALREADY KNOW THAT WE WILL SOON HAVE THE
SIXTH PLENUM OF THE 11TH PARTY CENTRAL
COMMITTEE. THIS WILL BE A VERY IMPORTANT
SESSION, ON THAT OCCASION, AN IMPORTANT

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DOCUMENT ON CERTAIN HISTORICAL QUESTIONS
WILL BE ADOPTED, AND THERE WILL BE SOME
PERSONNEL CHANGES IN THE CENTRAL LEADER-
SHIP. [FIVE LINES EXCISED] PERHAPS
YOU ALSO KNOW THAT IN 1945 THE PARTY CENTRAL
COMMITTEE ADOPTED A RESOLUTION ON SOME
IMPORTANT HISTORICAL QUESTIONS SINCE THE
ESTABLISHMENT OF THE PARTY. AT THAT TIME
OUR PARTY HAD A HISTORY OF 24 YEARS. THIS
DOCUMENT ENCOURAGED THE UNITY OF PARTY
MEMBERS, AND CONTRIBUTED TO THE STRENGTH
OF THE PARTY, WHICH ULTIMATELY ACHIEVED
THE GREAT NATIONAL VICTORY. THE RESOLUTION
TO BE ADOPTED AT THE SIXTH PLENUM WILL BE
A SUMMARY COVERING THE PERIOD FROM THE
FOUNDING OF OUR REPUBLIC TO THE PRESENT --
THAT IS, 32 YEARS. THIS DOCUMENT WILL
CERTAINLY EXPEDITE THE PROGRESS OF THE FOUR
MODERNIZATIONS EFFORT. PERHAPS YOU KNOW

THAT SINCE 1977, AND ESPECIALLY SINCE 1979, WE HAVE DONE A LOT TO REVIEW THE PATH WE HAVE TRAVESED AND TO SUMMARIZE OUR EXPERIENCE AND THE LESSONS WE HAVE LEARNED. THE MAIN PURPOSE IS TO MAKE CLEAR THE DISTINCTION BETWEEN RIGHT AND WRONG, TO STICK TO THE RIGHT, AND TO CORRECT MISTAKES. THIS HAS BEEN A TREMENDOUS JOB, BUT IT IS NOW ALREADY FINISHED. AGAINST THIS BACKDROP THE SIXTH PLENUM WILL BE HELD.

TALKING ABOUT LOOKING BACK ON HISTORY AND SUMMING UP OUR HISTORICAL EXPERIENCE, THE QUESTIONS IS ONE OF HOW ONE LOOKS AT OUR JOB OVER THE PAST 32 YEARS. DURING THIS PERIOD, WE HAVE MADE SOME MISTAKES, PARTICULARLY DURING THE CULTURAL REVOLUTION, WHICH AFFECTED THE ENTIRE NATION. BUT APART FROM THAT, WE HAVE MADE CONSIDERABLE PROGRESS. WE HAVE ESTABLISHED A SOCIALIST SYSTEM, AND WE HAVE LAUNCHED A MASSIVE ECONOMIC PROGRAM. WE HAVE CARRIED OUT WATER CONSERVANCY ON A LARGE SCALE IN THE COUNTRY-SIDE. ONE MIGHT SAY THAT INDUSTRY HAS ALREADY ATTAINED A SIZEABLE MAGNITUDE. THERE ARE AS MANY AS 400,000 INDUSTRIAL ENTERPRISES IN CHINA. THE VALUE OF FIXED ASSETS AND CIRCULATING CURRENCY OF THESE ENTERPRISES AMOUNTS TO [ILLEGIBLE] BILLION CHINESE YUAN. THERE ARE, OF COURSE, SOME SHORTCOMINGS SUCH AS FAULTS IN MANAGEMENT AND EFFICIENCY, WHICH IS NOT TOO HIGH,

BUT WE HAVE ACHIEVED A SIZEABLE BASIS FOR DEVELOPMENT.

DURING THE LAST 32 YEARS THE CHINESE POPULATION HAS NEARLY DOUBLED. IN 1949 THERE WERE OVER 500 MILLION CHINESE. NOW WE HAVE NEARLY ONE BILLION. WE HAVE SUCCEEDED IN MEETING THE BASIC NEEDS OF OUR PEOPLE. NOW THEY HAVE ENOUGH TO EAT AND WEAR. HOWEVER, COMPARED TO THE DEVELOPED COUNTRIES AND TO THE MEDIAN INCOME AND RAPID GROWTH NATIONS, CHINA IS A POOR COUNTRY AND DECIDELY BACKWARD. BUT IT IS A VASTLY DIFFERENT COUNTRY THAN IT WAS 30 YEARS AGO. ONE OF THE MAJOR INDICATIONS OF CHANGE IS THAT THE AVERAGE LIFE EXPECTANCY IS NOW 64 YEARS OLD. AS YOU KNOW, LIFE EXPECTANCY REFLECTS THE LEVEL OF ECONOMIC AND SOCIAL DEVELOPMENT OF A COUNTRY. PARTICULARLY, I WOULD POINT OUT THAT IN THE LAST 30 OR MORE YEARS WE HAVE ACHIEVED SUCCESS IN A COUNTRY OF ONE BILLION, OF WHICH 800 MILLION ARE PEASANTS, AND IN A COUNTRY WHOSE ECONOMIC BASE WAS EXCEEDINGLY WEAK. FOR THE BETTER PART OF THE LAST THREE DECADES, CHINA CARRIED ON WORK UNDER DIFFICULT CONDITIONS. THE BLOCKADE WE FACED REQUIRED US TO RELY ON OURSELVES IN CAPITAL FORMATION, TECHNOLOGICAL DEVELOPMENT, AND BRINGING OUT THE TALENTS OF OUR PEOPLE. OF COURSE, IN THE 1950'S WHEN STALIN WAS ALIVE THE SOVIET UNION DID GIVE US SOME ASSISTANCE, BUT IT WAS NOT FREE; WE HAD TO PAY IT BACK. WHEN KRUSHCEV CAME TO POWER HE TORE UP THE CONTRACTS, PULLED OUT THE TECHNICIANS, AND DEMANDED REPAYMENT. ALTHOUGH THIS

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**CAUSED US GREAT TROUBLE, WE EVENTUALLY
PAID EVERYTHING BACK**

**I WOULD MENTION IN PARTICULAR THAT ONE-
THIRD OF THE LAST THREE DECADES -- THAT IS**

TEN YEARS -- WAS WASTED BECAUSE OF SO-CALLED CULTURAL REVOLUTION. LOOKING BACK, WE CAN SEE EVEN MORE CLEARLY WHAT A WASTED DECADE THAT WAS. I HAVE STUDIED THIS QUESTION AND FOUND THAT IT WAS PRECISELY DURING THAT DECADE THAT SOME OF THE LESS DEVELOPED COUNTRIES ACHIEVED SUCH REMARKABLE ECONOMIC PROGRESS. I HAVE GONE INTO DETAIL CONCERNING HOW TO LOOK AT THE LAST 32 YEARS. WE THINK THAT DESPITE BLUNDERS, THE SUCCESSES WERE THE PREDOMINANT FEATURE. THIS SHOWS THAT THE SOCIALIST SYSTEM CORRESPONDS TO ACTUAL CONDITIONS IN CHINA. WE HAVE BROUGHT INTO PLAY THE SUPERIORITY OF THE SOCIALISTS SYSTEM. EFFORTS MUST CONTINUE TO BE MADE TO IMPROVE OUR SYSTEM. THERE ARE SOME MAJOR FLAWS. THEY NEED TO BE REFORMED. THERE ARE SOME POLICY MISTAKES WHICH NEED TO BE CORRECTED.

THIS IS OUR GENERAL VIEW. ON THE ONE HAND, WE SHOULD STICK TO THE SOCIALIST ROAD, UPHOLD MARXISM-LENINISM-MAO ZEDONG THOUGHT,

EXERCISE THE DICTATORSHIP OF THE PROLETARIAT, AND ADHERE TO THE LEADRSHIP OF THE COMMUNIST PARTY. BUT ON THE OTHER HAND, REFORMS WILL HAE TO BE CARRIED OUT STEP BY STEP. WHAT MAO ZEDONG SAID STILL WORKS FOR A GENERATION. IN ASSESSING OUR PERFORMANCE OVER THE PAST 32 YEARS, ONE SHOULD NEITHER CONFIRM NOR NEGATE WHAT HAS BEEN DONE, I.E., WE SHOULD NOT BECAUSE OF MISTAKES OR BLUNDERS NEGATE OUR BASIC SOCIALIST SYSTEM OR CHINA'S BASIC POLICIES. WE SHOULD STICK TO THE FOUR PRINCIPLES WHILE MAKING EARNEST EFFORTS TO PERFECT OUR SOCIALIST SYSTEM AND OVERCOMING SHORTCOMINGS IN OUR POLITICAL SYSTEM.

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HAIG: WE DO FOLLOW EVENTS HERE CLOSELY, SINCE WE
REGARD CHINA'S ECONOMIC HEALTH,
STABILITY, AND VITALITY AS A MATTER OF
CONCERN TO THE UNITED STATES AS WELL. IN

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MANY RESPECTS, AS MY DISCUSSIONS WITH VICE PREMIER BO YIBO YESTERDAY CONFIRMED, WE ARE PURSUING PARALLEL TRACKS EVEN THOUGH WE ARE UNDER DIFFERENT SYSTEMS. I KNOW WE HAVE BOTH LEARNED ONE OF THE BASIC LESSONS OF ECONOMICS, WHETHER ONE SPEAKS OF 18TH CENTURY ECONOMICS OR MARXIST ECONOMICS: THAT IS THAT NATIONS MUST NOT SPEND MORE THAN THEY TAKE IN. THAT IS A FORMULA FOR MORTGAG- IN[G] THE FUTURE.

ZHAO: I HAVE HEARD THAT ACCORDING TO KEYNESIAN ECONOMIC THEORY ONE CAN SPEND MORE THAN ONE EARNS.

HAIG: THAT IS NOW A DEFUNCT THEORY IN THE UNITED STATES. PRESIDENT REAGAN DOES NOT FOLLOW FRIEDMAN EITHER, BUT HE REMEMBERS BASIC ECONOMICS FROM 40-50 YEARS AGO. I THINK OUR OWN HOUSEHOLDS LIVE BY THE FUNDAMENTAL ECONOMIC PRECEPTS WHICH NATIONS MUST FOLLOW AS WELL. I HAD A LENGTHY DISCUSSION WITH DAVID ROCKEFELLER AFTER HIS RECENT VISIT IN CHINA WITH THE TRILATERAL COMMISSION. HE EXPRESSED GREAT INTEREST IN CAPITAL FINANCING AND THOUGHT THAT HE AND SOME OF HIS RANKING FRIENDS COULD OFFER SOME CONSTRUCTIVE SUGGESTIONS. I DID GATHER YESTERDAY THAT PART OF YOUR REFORM PROGRAM INVOLVES GREATER DECENTRALIZATION. THAT INTERESTS ME BECAUSE WE ARE ALSO SEEKING TO ACCOMPLISH THAT IN THE UNITED STATES. WE HAVE ONE MAJOR CONTRADICTION IN OUR OTHERWISE AUSTERE BUDGET, WHICH HAS BEEN REDUCED BY 50 [?] BILLION DOLLARS; THAT IS A DRAMATIC 32 [?]

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BILLION DOLLAR INCREASE IN OUR DEFENSE SPENDING. WE HAVE FOUND THAT OVER THE LAST 20 YEARS OUR SOCIAL PROGRAMS GREW FROM 29 BILLION DURING THE ADMINISTRATION OF JOHN KENNEDY IN 1962 TO NEARLY 300 BILLION LAST YEAR. MANY OF THE PROGRAMS HAVE OUTLIVED THEIR ORIGINAL PURPOSE, BUT THEY HAVE RETAINED

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MOMENTUM AND CONSTITUENCIES THEIR OWN [SIC], HENCE, THEY CONTINUE TO GROW. WE ARE PURSUING A BROAD BASED ECONOMIC REFORM SOMEWHAT DIFFERENT FROM WHAT MRS. THATCHER TRIED IN THE UNITED KINGDOM THREE YEARS AGO. SHE MADE THE MISTAKE OF TRYING TO ISOLATE FUNCTIONAL AREAS OF AUSTERITY, AND SHE WAS DEFEATED ON EACH ISSUE BY THE PARLIAMENT AND THE PEOPLE AND IS IN SOME TROUBLE TODAY. FOR THAT REASON, WE ARE TRYING TO PROCEED ON A BROAD FRONT IN AN INTEGRATED MANNER TO GET THE BASIC IMPROVEMENTS IN OUR ECONOMY WHICH WE MUST HAVE.

MR. PREMIER, I AM ANXIOUS TO HEAR ABOUT YOUR TRAVELS. I BROUGHT VICE CHAIRMAN DENG LETTER FROM VICE PRESIDENT BUSH, AND I HAVE BROUGHT YOU A LETTER FROM PRESIDENT REAGAN. I HAVE ALSO BEEN ASKED BY PRESIDENT REAGAN TO EXTEND TO YOU AN INVITATION TO VISIT THE UNITED STATES AT A MUTUALLY CONVENIENT DATE AT THE END

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OF THIS YEAR OR THE BEGINNING OF NEXT YEAR.
WE WOULD BE HONORED TO RECEIVE YOU IF YOUR
SCHEDULE PERMITS. WE CAN WORK OUT THE
ARRANGEMENTS THROUGH DIPLOMATIC CHANNELS. I
KNOW THAT THE AMERICAN PEOPLE WOULD BE DELIGHTED
TO WELCOME YOU.

ZHAO: I WOULD LIKE TO EXPRESS THANKS FOR PRESIDENT
REAGAN'S LETTER AND FOR HIS INVITATION AS WELL.
BECAUSE I HAVE A VERY CROW[D]ED SCHEDULE THIS
YEAR, PERHAPS I WILL NOT BE ABLE TO MAKE IT.
BUT I AM LOOKING FORWARD TO VISITING WITH
THE PRESIDENT AT A LATER DATE. SPECIFIC
DATES CAN BE WORKED OUT THROUGH DIPLOMATIC
CHANNELS. I WOULD LIKE TO TAKE THIS
OPPORTUNITY TO RENEW THE INVITATION TO
PRESIDENT REAGAN TO VISIT CHINA. THE
CHINESE GOVERNMENT HAS ALREADY EXTENDED
AN INVITATION. NOW, ON BEHALF OF YE JIANYING,
THE CHAIRMAN OF THE STANDING COMMITTEE OF
THE NATIONAL PEOPLE'S CONGRESS, AND THE
CHINESE GOVERNMENT, I WOULD LIKE TO REAFFIRM
THAT INVITATION TO PRESIDENT REAGAN TO
VISIT AT A CONVENIENT TIME. PLEASE ALSO
CONVEY MY REGARDS TO THE PRESIDENT.

HAIG: I SHALL BE HAPPY TO DO SO. I KNOW THE
PRESIDENT WILL WELCOME YOUR INVITATION AND
LOOKS FORWARD TO YOUR VISIT. LIKE YOU,
THE PRESIDENT HAS A VERY HEAVY SCHEDULE
AND HE HAS FALLEN BEHIND BECAUSE OF THE RECENT
ATTEMPT ON HIS LIFE.

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ZHAO: [PAGE EXCISED]

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[TWO LINES EXCISED]

HAIG: WE ARE PRESSED FOR TIME AND MUST STOP. LET ME MAKE ONE COMMENT ON PAKISTAN. YOU WILL HAVE NOTED IN THE PRESS THE ANNOUNCEMENT THAT MY UNDERSECRETARY FOR SECURITY ASSISTANCE, JIM BUCKLEY, HAS WORKED OUT A FRAMEWORK AND THE DETAILS OF AN AGREEMENT FOR A MULTI-BILLION DOLLAR ASSISTANCE PROGRAM FOR PAKISTAN. THIS PUBLICITY ON THE ARRANGEMENT HAS COME UP MORE LOUDLY THAN I WOULD HAVE WISHED THIS EARLY.

ZHAO: IS IT FOR DOLS 30 BILLIONG [SIC]?

HAIG: OVER DOLS 3 BILLION. DOLS 3 BILLION OVER FIVE YEARS IS A HIGH FIGURE, AND IS UNPRECEDENTED. THIS REPRESENTS ROUGHLY THE SAME LEVEL OF AID AS WE PROVIDE TO EGYPT. I WANTED TO ALERT YOU TO TWO ASPECTS OF THIS. FIRST, THERE WILL BE LOTS OF CONTROVERSY IN THE CONGRESS AS VARIOUS MEMBERS ARGUE THAT HIS IS TOO MUCH AND THAT IT HAS NOT BEEN CAREFULLY COORDINATED. WE WILL WORK ON THIS PROGRAM. SECOND, THE DANGER OF IMMEDIATE SOVIET PRESSURES ON PAKISTAN MAY BE HIGHER THAN EVER. [REMAINDER OF DOCUMENT TEXT ON PAGE EXCISED]

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[PARAGRAPH EXCISED]

THE MEETING CONCLUDED AT 5:00 P.M.

ROY